



**Statement of John Berthoud, Ph.D.
President of the National Taxpayers Union**

**before the
United States House of Representatives
House Judiciary Committee, Subcommittee on the Constitution**

**on
H.J. Res 22, the Balanced Budget Amendment**

March 6, 2003

I. Introduction

Chairman Chabot and Members of the Subcommittee, my name is John Berthoud. I am President of the National Taxpayers Union (NTU), a nationwide grassroots lobbying organization of taxpayers with 335,000 members. You can find out all about NTU – and our educational affiliate, the National Taxpayers Union Foundation – on our website: www.ntu.org.

I come here today to offer testimony in favor of the Balanced Budget Amendment (BBA) that has been introduced by Representative Istook, Representative Stenholm, and some 100 of their colleagues. This is the same Balanced Budget Amendment that passed the House with 300 votes in 1995, only to fall one vote short of the required 2/3 margin in the Senate.

I will argue today that a BBA will improve the fiscal process of the United States and is in our long-term best interests – both economically and politically.

II. The Problem of Deficits

Large federal deficits have plagued the United States for decades. While the problem abated for four years at the end of the 20th century, we have now returned to deficits for the foreseeable future. As this Subcommittee well knows, the White House is now projecting deficits for this year and next in excess of \$300 billion. And those figures don't include the costs of any war in the Middle East.

NTU believes deficits and debt lead to four fundamental problems for our economy and nation.

1. Savings and Investment. While different studies have come to varied conclusions on the impact of deficits, most economists would agree that federal deficits are a problem insofar as they reduce private sector investment. Herbert Stein summarized the thinking of much of the economics profession when he noted:

[T]he important effect of the absolute size of the deficit or surplus is the effect on private investment. That is, I think, the view now held by most, although not all, economists. The argument is simple. Private savings equal the sum of private investment plus the government deficit. Private saving is totally absorbed in these two uses. The larger the government deficit is, the smaller private investment will be – unless the larger government deficit is matched by an equally larger total of private savings.¹

NTU believes that when increases in government spending drive deficits higher, there is an adverse impact for the economy as government crowds out more productive private sector activity.

2. Inter-generational Issues. Second, federal deficits add to our mounting generational imbalance – the huge fiscal burdens we are leaving for our children. Large federal deficits and debt on top of entitlement programs that are facing grave long-term financing problems are a terrible legacy for the future.

The inter-generational aspects of debt have been a concern of leaders in this nation since the beginning of our country. To Jefferson, if one generation incurred a public debt, it was in violation of “natural law” because it raised “the question whether one generation of men has a right to bind another.”²

Lead sponsor Ernest Istook has made the argument well, “While we manage our national and homeland security, we must plan ahead to guarantee that we return to a balanced budget once we overcome these challenges. We must assure our kids and grandkids inherit freedom and security, but do not inherit a crushing national debt.”³

3. Public Cynicism and a Break-down in Government. Certainly, and unfortunately, the public has many reasons to be cynical about Washington and American politics. Rising levels of distrust of government are poison to a democracy. While there are other causes, we believe that large and continuous federal deficits add to this cynicism.

Beyond turning off the public, large and continuing deficits lead to less responsive government. While some have made the case that a Balanced Budget Amendment would limit the flexibility of the country to respond to public crises, in reality, deficits are a far greater impediment. Comptroller General Charles Bowsher observed a number of years ago that: “The deficit has severely hampered the ability of the Congress and the administration to deal with emerging issues that are of growing importance to the American people.”⁴ Bowsher cited AIDS as one example of a problem not dealt with promptly because of our large deficits.

4. Distorting the Budget Decision-making Process. Finally, deficits lead to more government than would otherwise be the case. This is bad for two reasons: besides leaving society with a non-optimal mix of government and private sector, larger government also means lower economic growth.

How does deficit finance expand government? Nobel Laureate Milton Friedman said in 1984 that:

As a strong supporter of a constitutional amendment requiring the federal government to balance its budget and limit spending, I clearly share the aversion to deficits that politicians of all shades of opinion have been expressing so loudly. But my reasons are quite different from theirs. In my view, the key question to deficits is political, not economic. The economic harm attributed to deficits – whether high interest rates, inflation or economic stagnation – comes not from the deficits but from the high level of government spending that those deficits help to finance.⁵

Taxes are the price we the citizenry pay for government services. When government pays for programs through deficit finance, the price of government for today's citizens declines. Given this subsidy from future generations, it is only natural that we as a society will thus opt for more government than we would have chosen if we had to pay the full price for it. By analogy, if a consumer is weighing whether to buy a Pepsi for \$1 or remain thirsty, it may be a tough choice. If that consumer can pass half the cost of that Pepsi onto some unknown person living in the future, the choice to consume becomes very easy.

The evidence is suggestive that Friedman is correct that allowing deficit finance leads to higher spending. In 1962, total non-defense federal outlays were 9.5 percent of GDP. By 2002, non-defense federal outlays were 16.1 percent of GDP, an increase of 69 percent.⁶

And there is a growing body of evidence linking high government spending with lower economic growth. For example, a Rand Corporation study found that for every 10 percent of a nation's total annual income that is spent by government, the average growth rate of that nation's economy is reduced by one percent annually.⁷

Because of the inverse relationship between government spending and economic growth, through holding down deficits and excessive government spending, we can substantially increase our long-term economic prosperity.

III. Statutory Measures Just Won't Suffice

So it seems clear that deficits driven by higher federal spending harm the economy. The question is, how can we stop deficits?

Alice Rivlin and others have made the case that rather than procedural changes such as a Balanced Budget Amendment, we need more virtuous leadership in Washington.⁸ This is not a new plea in American politics and unfortunately, proponents of better leadership for the nation have yet to explain how such leadership is to be permanently attained. This goal is as illusory in the 21st century as it was in the 18th century, when it was discussed at length in *The Federalist Papers*.

So we need some procedural change. In light of the difficulty of passing a constitutional amendment, there have been numerous efforts since adoption of the Congressional Budget and Impoundment Control Act in 1974 to statutorily change the budget rules to fight deficits.

The most ambitious of these efforts was the Gramm-Rudman-Hollings experiment of 1985-1990. This effort may have modestly reduced deficits – on the order of \$15 billion per year, mainly through limiting spending.⁹ But the same factor that undermined the law's effectiveness ultimately killed it – Gramm-Rudman-Hollings was a mere statute. Congress and the President could roll back, and in the end terminate, the deficit targets when the political decisions became too taxing.

Mr. Chairman, as you yourself have summarized, “legislative efforts to balance the budget have proven largely unsuccessful in limiting deficit spending. The surpluses we enjoyed for the last few years have proven to be a short-term anomaly as Congress has repeatedly relaxed deficit targets and circumvented statutory spending limits . . . Given the propensity of Congress to evade legislative efforts to control spending, a constitutional amendment is the most effective – and perhaps only – way to ensure that Congress balances its budget each year.”¹⁰

Only a constitutional guarantee will deliver year after year of balanced budgets for the United States. As Judiciary Committee Chairman Sensenbrenner has stated, “The time has come for a little constitutional supervision over the Congress, just like we have to have parental supervision over our children.”¹¹

IV. Conclusion

There are no magic solutions in public budgeting or public policy in general. NTU does not pretend that the BBA will instantly cure all the nation's fiscal problems or correct all long-term financial imbalances. But we come before this distinguished Subcommittee today to state that enactment of a Balanced Budget Amendment would without a doubt produce superior results to the policies of the preceding decades.

The version of the BBA that Representatives Istook and Stenholm have introduced is very good. There are no loopholes in it – as we've seen in other versions of the BBA that Congress has considered over the years. The National Taxpayers Union and our 335,000 members urge the Subcommittee to favorably report this measure.

Thank you.

Notes

¹ Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Clinton* (Washington, DC: The American Enterprise Institute, 1994), Pages 350-351.

² Peter G. Peterson, *Facing Up: How to Rescue the Economy from Crushing Debt and Restore the American Dream* (New York, NY: Simon & Schuster, 1993), Page 223.

³ “Istook Introduces Balanced Budget Amendment,” Press Release of Representative Ernest Istook, February 13, 2003, <http://www.house.gov/istook/rel-bba03.htm>.

⁴ Charles Bowsher, “The Disinvestment of Government,” *The GAO Journal*, Number 4, Winter 1988/89, Page 60.

⁵ James Savage, *Balanced Budgets & American Politics*, (Ithaca, NY: Cornell University Press, 1988), Page 9.

⁶ Table 8.4, *Fiscal Year 2004 Historical Tables, Budget of the United States Government*. During that same period, national defense dropped from 9.2 percent of GDP to 3.4 percent.

⁷ Charles Wolf, Jr., *Markets or Government: Choosing Between Imperfect Alternatives* (Cambridge, MA: MIT Press, 1988), Page 146. Lewis Uhler extrapolates from these findings: “Assume that the United States were to reduce the proportion of its spending at all levels of government from 40 percent of our Gross Domestic Product (GDP) to about 20 percent. Assuming a current average annual economic growth of about two percent, we would *double* the average annual rate of growth of our nation’s economy — and *compound* that every year.” (Lewis Uhler, *Setting Limits: Constitutional Control of Government*, (Washington, DC: Regnery Gateway, 1989), Pages 83-84.)

⁸ Alice Rivlin, “Reform of the Budget Process,” *American Economics Association Papers and Proceedings*, May 1984.

⁹ See John Berthoud, *Gramm-Rudman-Hollings: The Fiscal Weapon of Public Choice?* (New Haven, CT: Yale University Doctoral Dissertation, Department of Political Science, 1992); Sung-Deuk Hahm, Mark S. Kamlet, David C. Mowery, and Tsai-Tsu Su, “The Influence of the Gramm-Rudman-Hollings Act on Federal Budgetary and Fiscal Policy Outcomes 1986-1989,” Paper presented to the Annual Meeting of the Southwestern Political Science Association, March 27-29, 1991.

¹⁰ Statement of Congressman Steve Chabot, Chairman, House Judiciary Subcommittee on the Constitution, Introduction of the Balanced Budget Constitutional Amendment, February 13, 2003.

¹¹ The Associated Press, “Balanced Budget Amendment Introduced,” February 13, 2003, http://abcnews.go.com/wire/Politics/ap20030213_1522.html.